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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 001564

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SUBJECT: A SUCCESSFUL MODEL FOR MANAGING OIL IN NIGERIA

1.(U) Classified by CG Brian Browne for reason 1.4(d)

12. (U) SUMMARY. In a July 22 meeting with Ambassador John Campbell, Ocean Energy Managing Director Raymond Marchand stated that the Nigerian National Petroleum Corporation (NNPC) contracting process was protracted and involved many duplicative steps but was not corrupt. Marchand related that the chronic violence in the Delta did not affect Ocean Energy's operations, which focus on deep-water oil patches. He was proud that Ocean Energy also was at the forefront among oil companies in hiring Nigerians to important positions (i.e., local content) and in funding community development projects (CDAs). END SUMMARY.

13. (U) Ambassador John Campbell met with Raymond Marchand, Managing Director of Ocean Energy, in Lagos on July 22, 2004. CG Brian Browne, Ocean Energy Drilling Manager David Halloway, and ConOff Bill Murad (notetaker) also attended. Ocean Energy is the international arm of the American firm, Devon Energy Corporation.

SECURITY

14. (U) When asked for his approach to security risks and outbreaks of violence in oil-producing areas, Marchand explained that Ocean Energy's risks were minimized by the fact that its focus was on deep-water drilling, 100 miles out to sea. Headquartered in Lagos, Ocean Energy further minimized its risks by maintaining only a skeletal, two-person office near Port Harcourt. Marchand added that, even under the most dangerous conditions, "business always continues," and that, for Nigeria to be successful, "everyone knows that the oil business must go on."

RED TAPE

15. (C) Asked about corruption in the oil contracting process, Marchand said the Nigerian system was more cumbersome than corrupt. In fact, Marchand asserted the system, which involves a series of decisional reviews as an item moves up the NNPC hierarchy, was created to check corruption. The truth is that the Nigerians do not trust each other and closely vet the decisions of other parts of the NNPC bureaucracy. Ocean Energy succeeds by hiring former civil servants and experienced private-sector Nigerians who know the system well. For example, Ocean Energy recently navigated the National Petroleum Investment Management Services (NAPIM) approval process in 13 months instead of the customary 18-24 months needed to approve the drilling of a well. Marchand credits a culturally savvy staff, led by a former NAPIM minister, with reducing Ocean Energy's waiting period. He mentioned that the current NNPC Managing Director, Engineer Funsho Kupolukun, was much better than his predecessor, Jackson Gaius-Obaseki. Obaseki was self-absorbed and paid insufficient attention to the internal workings of the NNPC. Kupolukun, on the other hand, is well-versed, involved, and has made the NNPC perform more efficiently, though many bottlenecks still remain. He said that other oil companies often hurt themselves by grousing and attempting to push the Nigerians to change their system. This will only make the process more dilatory, he stated.

COMMUNITY INVOLVEMENT

16. (U) Marchand explained Ocean Energy's successful approach to local content and community development. While law requires 50% local content, approximately 75% of Ocean Energy personnel are Nigerian. The company's drilling team is composed entirely of Nigerians except for four x-pat managers who rotate in pairs every four weeks. The entire team of seismologists who decide where to drill is Nigerian. Further, Ocean Energy spends up to \$2 million per

year in local training and CDPs despite the fact that they are not yet producing (Oil companies are required to fund CDPs but only after actual production). Ocean Energy' community involvmt is even more remarkable given that its deep-water focus makes it less vulnerable to local unrest.

COMMENT

17. (U) COMMENT. Ocean Energy's model of working within the Nigerian system, using a largely Nigerian staff, and concentrating on deep-sea drilling has been successful. While other companies that operate closer to shore may not be able to share Ocean Energy's sense of relief on security issues, they perhaps can take a lesson from Marchand and his crew on how to navigate the NNPC bureaucracy. END COMMENT.

BROWNE